

**PRODUCTION ALLOCATION UNIT AGREEMENT
(HORIZONTAL WELL)**

“[Name of Agreement]”

WHEREAS

The Parties own Royalty Interests and Working Interests, or either of them, in the Production Allocation Substances;

The Parties wish to promote economic production of the Production Allocation Substances by the avoidance of unnecessary drilling;

The Parties are of the opinion that their objective will be realized through the Production Allocation Unit Agreement;

NOW THEREFORE in consideration of the covenants herein contained the Parties agree as follows:

ARTICLE I: INTERPRETATION

1.1 Definitions

In this Agreement:

- (a) **“Board”** means the Energy Resources Conservation;
- (b) **“Crown”** means Her Majesty the Queen in right of the Province of Alberta, represented herein by the Minister;
- (c) **“Drainage Well”** means a well identified as part of the Well for the purposes of this Agreement that produces Production Allocation Substances but has no production assigned to it by the Board;
- (d) **“Effective Date”** means the date described in and established by clause 10.2;
- (e) **“Lease”** means an instrument issued in respect of any part of the Production Allocation Area granting a Working Interest in the Production Allocation Substances;
- (f) **“Minister”** means the Minister of Energy;
- (g) **“Operating Agreement”** means the agreement entitled *[Operating Agreement name]* entered into by the Working Interest Owners;

- (h) **“Operator”** means a Working Interest Owner which is from time to time designated as Operator;
- (i) **“Party”** means a person who is bound by this Agreement;
- (j) **“Producing Well”** means a well identified as part of the Well for the purposes of this Agreement that produces Production Allocation Substances and to which all such production is assigned by the Board;
- (k) **“Production Allocation Area”** means the lands described in Exhibit “A” and shown outlined on Exhibit “B”;
- (l) **“Production Allocation Substances”** means natural gas together with associated substances in or obtained from the Production Allocation Zone through the Well, both before and after it has been subjected to any processing, and includes all liquid hydrocarbons other than crude oil;
- (l) *“Production Allocation Substances” means petroleum, natural gas and other hydrocarbons, (except coal), or any of them, and all other substances associated therewith, produced from the Production Allocation Zone through the Well;*
- (l) *“Production Allocation Substances” means petroleum, solution gas and related hydrocarbons (other than coal) and any other substances, whether hydrocarbons or not, which are produced in association therewith, or any of them, but does not include natural gas occurring in its free state, in or obtained from the Production Allocation Zone through the Well;*
- (m) **“Production Allocation Zone”** means the [formation name] Formation identified on the [log name] Log of the Well between the depths of [depth] m and [depth] m KB (a copy of which is attached hereto as Exhibit “C”), within and under the Production Allocation Area;
- (m) *“Production Allocation Zone” means the [formation name] Formation occurring between the depths of [depth] m and [depth] m KB as shown on a portion of the [log name] Log of [well name], identified as [unique well identifier], (a copy of which is attached hereto as Exhibit “C”), within and under the Production Allocation Area;*
- (n) **“Royalty Interest”** means:
 - (i) an absolute ownership interest, or a fee simple or similar ownership estate, in Production Allocation Substances in the Production Allocation Zone, or
 - (ii) a right to a share of Production Allocation Substances produced from the Production Allocation Zone, or to a share of the proceeds from the sale of such Production Allocation Substances, or to a payment based on the quantity or value of such Production Allocation Substances,

but does not include a Working Interest, the interest of a purchaser of such Production Allocation Substances after production, a mortgage, charge or other security interest, or any right of a government agency to a payment based on the quantity or value of such Production Allocation Substances;

- (o) **“Royalty Interest Owner”** means a Party owning a Royalty Interest;
- (p) **“Tract”** means a parcel of land in the Production Allocation Area described and assigned a Tract number in Exhibit “A” and shown outlined on Exhibit “B”;
- (q) **“Tract Participation Factor”** means the percentage allotted to a Tract and set forth in Exhibit “A”;
- (r) **“Well”** means [well name], identified as and consisting for the purposes of this Agreement of [unique well identifiers of the Producing Well and of the Drainage Wells associated with the Well];
- (s) **“Working Interest”** means any interest which entitles the owner thereof to produce and dispose of, or to participate in the production and disposition of, Production Allocation Substances, and with which is associated a responsibility for bearing all or a portion of the costs of recovering such Production Allocation Substances;
- (t) **“Working Interest Owner”** means a Party owning a Working Interest.

1.2 Headings

The headings of the Articles and clauses of this Agreement have been inserted for convenience of reference only and shall not affect the construction or interpretation of the Agreement.

1.3 References

In this Agreement, words importing the singular shall include the plural and vice versa; wording importing gender shall include the masculine, feminine and neuter genders; and references to persons shall include individuals, corporations, partnerships, bodies politic and other entities, all as the context may require.

1.4 Time

In the Agreement all times are Mountain Standard Time or Daylight Saving Time, whichever is then being used and observed in accordance with the Daylight Saving Time Act (Alberta).

1.5 Execution in Counterpart

This Agreement may be executed in separate counterparts and all the executed counterparts together shall constitute one agreement.

1.6 Dual Capacity

If a Party owns a Working Interest and a Royalty Interest, its execution and delivery of this Agreement shall constitute execution and delivery in both capacities.

1.7 Notification of Parties

Within 30 days of the Effective Date the Operator shall forward to each Party notification of the Effective Date together with a copy of the execution pages of all the counterparts, and shall submit to the Board one (1) copy of this Agreement.

ARTICLE II: EXHIBITS

2.1 Exhibits

The following Exhibits are attached to and incorporated in this Agreement:

- (a) Exhibit “A”, which numbers and describes each Tract and sets forth its Tract Participation Factor and, with respect to each Tract:
 - (i) sets forth the names of the owners of the Working Interests in the Tract and their percentage Working Interests in the Tract,
 - (ii) sets forth the names of the owners of the Royalty Interests in the Tract, and
 - (iii) identifies the Lease relating to the Tract, if any;
- (b) Exhibit “B”, which is a plan of the Production Allocation Area identifying the Tracts;
- (c) Exhibit “C”, which is a reproduction of a portion of the log referred to in subclause 1.1().

2.2 Revision of Exhibits

The Operator shall revise Exhibit “A” within 30 days of receiving notification in writing of any change of interest, due to any disposition of a Working Interest or of a Royalty Interest or of any interest therein, by way of sale, assignment, transfer, lease, sublease, conveyance, gift, change of possession or other transaction, together with documentary evidence of such disposition and counterparts of this Agreement executed by the acquiring parties who are not Parties. Each time that Exhibit “A” is revised or corrected pursuant to this Agreement, the Operator shall supply the Board and the Minister with two (2) copies each, and shall supply each Working Interest Owner with a copy thereof. Each Working Interest Owner shall supply each of its Royalty Interest Owners, excepting the Crown, with a copy thereof.

ARTICLE III: AUTHORITY TO WORKING INTEREST OWNERS

3.1 Operations

The Working Interest Owners are hereby granted the right to develop and operate the Well for the production of Production Allocation Substances from the Production Allocation Zone in such manner and by such methods as the Working Interest Owners consider necessary and proper.

3.2 Delegation

The Working Interest Owners may delegate to the Operator of any of the rights and powers herein or otherwise granted to them.

3.3 Decisions of Working Interest Owners

Any matter to be determined under this Agreement by the Working Interest Owners shall be determined in accordance with the provisions of the Operating Agreement.

ARTICLE IV: ALLOCATION OF PRODUCTION ALLOCATION SUBSTANCES

4.1 Tract Participations

Each Tract has a Tract Participation as shown on Exhibit "A".

4.2 Allocation Among Tracts

On and after the Effective Date of this Agreement, the Production Allocation Substances when produced from the Well shall be allocated among the Tracts in accordance with their respective Tract Participation Factors. Subject to clause 6.1, the amount of Production Allocation Substances so allocated to each Tract, and only that amount, shall be deemed conclusively to have been produced from the Tract.

4.3 Allocation Among Parties

- (a) The Production Allocation Substances allocated to a Tract shall be allocated among the Working Interest Owners in that Tract in accordance with their respective Working Interests in the Tract as set forth in Exhibit "A".
- (b) The Working Interest Owner in each Tract shall account to the Royalty Interest Owner in that Tract, in accordance with clause 6.1, for any royalty payable or deliverable to that Royalty Interest Owner in respect of the Production Allocation Substances allocated to that Tract pursuant to clause 4.2.

ARTICLE V: CANCELLATION OF LEASE

5.1 Lease Cancellation

If a Lease is cancelled, surrendered or terminated, the lessor of such Lease shall have the right, by notice to the other Parties within 10 days of the confirmation of such cancellation, surrender or termination, to assume, and be bound by this Agreement and the Operating Agreement as the owner of, the Working Interest covered by such Lease, effective as of 0800 on the first day of the month following the date on which such cancellation, surrender or termination is confirmed. If the lessor does not so assume the Working Interest the Working Interest Owners, in the proportion of their Working Interests and within 10 days of the expiry of the aforementioned 10-day period, shall have the right to assume such Working Interest; in which case the lessor, without consideration except as provided in clause 5.2, shall issue them a Lease with respect thereto on the same terms and conditions as the Lease which was cancelled, surrendered or terminated. Unless the lessor or all or some of the Working Interest Owners so assume such Working Interest, this Agreement shall terminate effective as of the date of confirmation of the cancellation, surrender or termination of the Lease.

5.2 Outstanding Royalties

If some or all of the Working Interest Owners assume, pursuant to clause 5.1, the Working Interest covered by the Lease which has been cancelled, surrendered or terminated, they shall pay the net proceeds, after the deduction of all of their costs, of the share of Production Allocation Substances allocated to that Working Interest to the Royalty Interest Owner until such time as the Royalty Interest Owner has recovered any outstanding ascertained royalty liability relating to Production Allocation Substances previously allocated to such Working Interest.

ARTICLE VI: ROYALTY

6.1 Calculation of Royalty

The Working Interest Owner in each Tract shall calculate the royalty for that Tract:

- (a) on the total amount of Production Allocation Substances produced from the Well, and
- (b) at the rate under the Lease or pursuant to the Mines and Minerals Act, as the case may be,

and shall pay or deliver to the Royalty Interest Owner in the Tract a royalty share of production based on the amount of Production Allocation Substances allocated to the Tract.

6.2 Disposition of Royalty Interest Owner's Share of Production Allocation Substances

In the event that any portion of a Working Interest Owner's share of Production Allocation Substances allocated to a Tract is deliverable in kind to an owner of a Royalty Interest in respect

of that Tract, such Working Interest Owner shall ensure that such royalty delivery obligations are satisfied.

ARTICLE VII: INFORMATION

7.1 Access for Inspection Purposes

- (a) Any Party may, by notice in writing, require the Operator to submit to him copies of records in respect of the production of Production Allocation Substances from the Well, and the Operator shall comply with the notice within 30 days of the date of the notice.
- (b) The Operator shall permit and facilitate any Party or its authorized representative, at all reasonable times and at the party's sole risk and expense, to enter upon and have access to the wellsite for the purpose of inspecting equipment or facilities associated with the Well, or for the purpose of inspecting any records of production of Production Allocation Substances from the Well.

ARTICLE VIII: STATUTORY COMPLIANCE

8.1 Laws and Regulations

In exercising their respective rights and discharging their respective obligations under this Agreement, the Parties shall comply in all material respects with all statutes, regulations and other lawful governmental directives from time to time in force in the Province of Alberta. In the event of any conflict between the provisions of this Agreement and the Provisions of any such statute, regulation or other lawful governmental directive, the provisions of such statute, regulation or directive shall take precedence.

ARTICLE IX: EFFECT ON LEASES

9.1 Continuation of Leases

All operations conducted with respect to the Production Allocation Zone or production of Production Allocation Substances shall, except for the purpose of calculating payments to Royalty Interest Owners, be deemed conclusively to be operations upon or production from the Production Allocation Zone in each Tract, and such operations or production shall continue in full force and effect each Lease and any other agreement or instrument relating to the Production Allocation Zone or Production Allocation Substances as if such operations had been conducted on, and a well was producing from, each Tract or portion thereof in the Production Allocation Area.

9.2 Leases Amended

Each Lease and any other agreement or instrument relating to the Production Allocation Zone or Production Allocation Substances is hereby amended only to the extent necessary to make it conform to this Agreement.

ARTICLE X: TERM AND TERMINATION

10.1 Effect of Execution and Delivery

Subject to clause 10.3, this Agreement is binding upon a person who executes and delivers a counterpart thereof to the Operator, and that person is bound by this Agreement as of the time of such delivery.

10.2 Term of Agreement

The allocation of production provided for herein shall become effective at 0800 on the first day of the first calendar month which is the earliest of:

- (a) the month in which production of Production Allocation Substances from the Well commences, or
- (b) the month following the date of execution and delivery of this Agreement, in accordance with clause 10.1, by the owners of one hundred percent (100%) of the Working Interest and one hundred percent (100%) of the Royalty Interest within the Production Allocation Area.

That date and time is referred to in this Agreement as the Effective Date of this Agreement.

10.3 Release of Parties

Notwithstanding clause 10.2, this Agreement shall cease to bind the Parties or to be effective unless it is executed and delivered, in accordance with clause 10.1, by the owners of one hundred percent (100%) of the Working Interest and one hundred percent (100%) of the Royalty Interest within the Production Allocation Area, on or before the 1st day of [month], [year].

10.4 Automatic Termination

This Agreement shall terminate upon the occurrence of the earliest of:

- (a) the inclusion of the Production Allocation Zone within and under, and subject to the terms of, a Unit Agreement,

- (b) the permanent abandonment of the Well or of the Production Allocation Zone within the Well, or
- (c) the surrender or cancellation of all Leases relating or pertaining to the Production Allocation Zone,

and the Parties shall thereupon cease to be bound by the provisions of this Agreement.

10.5 Notice to Terminate

- (a) If a new Drainage Well or Producing Well is drilled or an existing Drainage Well or Producing Well is lengthened or otherwise modified without an amendment to this Agreement being executed by all of the Parties to include the new Drainage Well or Producing Well or the modifications to the existing Drainage Well or the existing Producing Well under this Agreement and to correspondingly change and adjust the Tract Participation Factor of the Tracts, the Crown may give the Operator written notice of its intention to terminate this Agreement. If the Parties have not executed an amendment Agreement that accomplishes all of the above objectives and deals with all of the above matters,
 - (i) within the period of 4 months following the date of the written notice, or
 - (ii) if an extension of the 4-month period is mutually agreed upon by the Crown and the Operator, within that extended period,

this Agreement shall terminate at the end of the 4-month period or of the extension of the 4-month period.

- (b) If, at any time after the Effective Date of this Agreement, the Well ceases to produce Production Allocation Substances for a period of ♦ consecutive ♦ or more, for a reason not contained in or contemplated by clause 11.5, any Party may give the Operator written notice of its desire to terminate this Agreement. If upon the expiry of a period of ♦ following the giving of any such notice the Well has not recommenced production of Production Allocation Substances, this Agreement shall terminate.

10.6 Notice to Royalty Interest Owners

The Operator shall give notice of the termination of this Agreement, within 30 days of its occurrence, to the Royalty Interest Owners.

ARTICLE XI: MISCELLANEOUS

11.1 Warranty of Title

Each of the Parties represents and warrants that, to the best of its knowledge, it has good right, full power and absolute authority to enter into this Agreement, that the Leases and any title documents relating to the Production Allocation Area are valid and subsisting documents, and that the obligations, covenants, provisions and condition on its part under the Leases have been kept, observed and performed to the date on which it executes and delivers to the Operator a counterpart of this Agreement.

11.2 Inurement

This Agreement shall inure to the benefit of, and be binding upon, the respective executors, administrators, successors and assigns of the Parties including, but not limited to, any individuals or corporations granted or assigned Working Interests subsequent to the Effective Date of this Agreement.

11.3 No Partnership, Joint Venture or Joint Operation

Nothing herein contained shall be read or construed as creating a partnership or joint venture, or as imposing upon any Party any partnership or joint venture duty, obligation or liability of any kind.

11.4 Time of the Essence

Time is of the essence in this Agreement.

11.5 Force Majeure

Neither the Operator nor any other Party shall be deemed to be default with respect to non-performance of its obligations hereunder, other than financial, if and so long as its non-performance is due, in whole or in part, to any cause beyond its reasonable control, but lack of funds shall not be a cause beyond a Party's reasonable control. The performance of such obligations shall begin or be resumed within a reasonable time after such cause has been removed. Neither this Agreement nor any other agreement or instrument relating to the Production Allocation Zone or Production Allocation Substances shall terminate by reason of suspension of operations for any cause set forth in this clause.

IN WITNESS WHEREOF the Parties have duly executed this Agreement as of the date shown opposite its name hereunder.

DATE: _____

Per: _____ {seal}

Per: _____ {seal}

ADDRESS FOR SERVICE:

Fax No. _____

COUNTERPART EXECUTION PAGE TO AN AGREEMENT ENTITLED
“[Name of Agreement]”

EXHIBIT "A" - PART I

**ATTACHED TO AND MADE PART OF AN AGREEMENT ENTITLED
"[Name of Agreement]"**

Tract No.	Land Description (W♦M)	Lease Number	Royalty Owner	Tract Participation (%)	Working Interest Owner	Share of Working Interest (%)	Share of Tract Participation (%)
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Working Interest Owners:

_____ %
_____ %

Effective as of the Effective Date